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Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East*

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Summary

The present report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) describes the activities of the Group during 2003 and provides a detailed outline of the current financial situation of UNRWA. The Working Group unanimously adopted the present report at its meetings on 17 and 20 October 2003. As in previous reports of the Group, the present report closes with a number of concluding remarks addressed to all Member States.

* In accordance with paragraph 1, section C, of General Assembly resolution 54/248, the present report is being submitted on 21 October 2003 following its adoption by the members of the Working Group on the Financing of UNRWA.

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I. Introduction: origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly under its resolution 2656 (XXV) of 7 December 1970 to study all aspects of the financing of the Agency. In that resolution, the Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At its twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group (most recently, A/57/462)[1] and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year (most recently, resolution 57/118).

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Chairman of the Working Group is Mehmet U. Pamir (Turkey).

II. Activities of the Working Group during 2003

4. Throughout the year, the members of the Working Group have followed with concern the difficulties experienced by the Agency and, in particular, the serious financial situation it continued to face. The Working Group held three meetings, on 10 September and 17 and 20 October 2003, to consider the recent developments in the Agency's financial situation and to prepare its report to the General Assembly. The Working Group adopted its report at its meetings on 17 and 20 October 2003.

5. At an informal meeting, on 10 September 2003, the Working Group was briefed by the Commissioner-General of UNRWA, who submitted an up-to-date report on the financial situation of the Agency. The Working Group gave further consideration to the report of the Agency at its 127th meeting on 17 October, as well as at a further informal meeting on 20 October 2003 (see sect. III below).

III. Financial situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

6. UNRWA faced a critical financial outlook for 2002 at the beginning of the year, which was subsequently alleviated by substantial exchange rate gains as well as cost constraining measures that enabled the Agency to end the year with an increased working capital for a second consecutive year. In 2002 UNRWA had an income of $305.9 million, of which $290.8 million ($280.8 million in 2001) was for the cash portion of the regular budget and $15.1 million was for the in-kind portion ($22.1 million in 2001). Those funds were received against a regular budget of $326.2 million, of which $304.3 million represented the cash portion and $22 million represented the in-kind portion, leaving a funding gap of $13.5 million in the General Assembly-approved cash budget ($304.3 million minus $290.8 million). Furthermore, the project budget for 2002 was underfunded by $35.8 million.

7. In cash terms, the Agency ended the year 2002 with $4.8 million for its General Fund. The $87.4 million in cash appearing in the Agency's financial statement for the year ended 31 December 2002 included earmarked contributions for non-regular budget activities, namely projects ($28.6 million) and the Emergency Appeals ($52.6 million) and procurement of food ($6.2 million). The Agency's working capital, which stood at $8.5 million by the end of 2001, was built up to $18 million by the end of 2002. That level of working capital reserves fell far short of the minimum level of $28 million, representing average monthly expenditure, of which $17 million is for the Agency's payroll for its 24,600 area staff.

8. Repeated funding shortfalls in recent years have severely eroded the cash position of UNRWA, as measured by the amount of cash to meet its obligations in a timely manner. At the end of 2002, outstanding and unpaid pledges amounted to $4.9 million pertaining to the regular budget. Further strain was exerted on the cash position of UNRWA by the non-reimbursement of amounts owed to the Agency, namely $21.7 million paid by UNRWA for the value-added tax (VAT) and due for reimbursement by the Palestinian Authority. The total amount of port charges due to the Agency is $7.1 million. The Agency's position is that the obligation to pay port and related charges remains with Israel pursuant to the terms of the 1967 Michelmore-Comay Agreement. A deficit of $5.1 million remains in the account set up to fund the costs of transferring UNRWA headquarters from Vienna to Gaza and Amman. That move was completed in 1996, but the budget for it remained underfunded and costs had to be met by the Agency on a temporary basis from other accounts.

9. By the end of September 2003, and based on confirmed pledges and other income, the Agency faced the prospect of a funding gap in its 2003 regular cash budget of $8.3 million. Income for 2003 is expected to be $306.8 million (of which $303.8 million is income from donors and $3 million is interest income and exchange rate gains), against a net cash expenditure of $315.1 million. At the informal meeting of the Agency's major donors and authorities hosting the refugees, held in Amman on 23 and 24 September, UNRWA reiterated the hope that the 2003 budget would be fully funded, affording a further allocation towards rebuilding the Agency's working capital and allowing a modest salary increase for the Agency's 24,600 area staff needed to reduce the continuing deterioration in competitiveness of UNRWA as an employer in its five fields of operations. Furthermore, of the $303.8 million income expected for the regular budget in 2003, $279.4 million were received by the end of September 2003 and $24.4 million are still outstanding.

10. In recent years, the Agency's major donors have responded repeatedly and generously to the special appeals made by the Secretary-General and the Commissioner-General for the funding of the regular and project budgets of UNRWA. The Commissioner-General and his colleagues continued to make strenuous efforts to keep donors informed, through the sharing of quarterly financial reports and the holding of regular consultations with donors and the host authorities. At the same time, the Agency continued to try to attract a reliable, sustainable flow of funds so that stopgap measures were not depended upon to meet ongoing and growing funding needs. In that context, UNRWA had appealed to donors to make payments of pledged contributions earlier in the calendar or budget years and to ensure the payment of pledges on time.

11. While the Working Group welcomed donor support for the Agency's emergency appeals for humanitarian assistance in the Occupied Palestinian Territory following the outbreak of strife in September 2000, it remained concerned about the increasing shortfalls in funding for its 2002-2003 appeals. Against a total request of $172.8 million for emergency appeals during 2002, the Agency received $95.9 million in pledges. Some $20.8 million of the total amount pledged remains outstanding. Against a total request for $196.6 million for Emergency Appeals during 2003, the Agency has only received $82.9 million in pledges. Some $26.8 million of the pledged amount remains outstanding. The Working Group encouraged donors to increase their contributions to the Agency's 2003 appeals and to pay outstanding contributions for both the 2002 and 2003 appeals. The shortfalls in emergency appeal contributions have seriously curtailed the Agency's humanitarian activities, inter alia, its food distribution and emergency employment generation programmes, as well as trauma counselling and other emergency health activities. Moreover, the lack of timeliness and predictability of funding has affected the Agency's ability to order the food commodities needed, thus delaying several of the planned emergency food distributions in the West Bank and the Gaza Strip. The Agency's strained cash flow situation and absence of sufficient working capital or reserves have prevented it from advancing other funds towards meeting those requirements pending the receipt of donor contributions to fund those activities.

12. The Agency's budget requirements for the biennium 2004-2005 are estimated to be $805 million (compared to $791.7 million for the biennium 2002-2003 approved by the General Assembly at its fifty-sixth session). Of the $805 million biennial allocation, $396.9 million is allocated for 2004. Of that amount, $330.3 million is for the cash portion of the regular budget, $20.6 million is for the in-kind part and $45.9 million is for projects. The budget for the biennium 2004-2005 reflects the bare minimum funding requirements needed to sustain essential services at the current level and to cater for additional funding requirements that resulted from the integration of new educational programmes in the school curriculums of the host authorities.

IV. Concluding remarks

13. **The Working Group is once again deeply concerned about the financial prospects for UNRWA; in particular, repeated funding shortfalls have affected the ability of the Agency to maintain the level and quality of the services provided by the Agency to over 4 million Palestine refugees. The Group emphasizes that it is the responsibility of the international community to ensure that UNRWA services are maintained at an acceptable level in quantitative and qualitative terms and that funding keeps pace with the steady natural growth of the refugee population. On special projects, the Working Group advised the Agency to improve management, including proposal preparation, budget estimation and feasibility assessment.**

14. **The Working Group appreciates that UNRWA has made significant progress towards reducing the impact of the structural deficit problem that had plagued the Agency in the previous years through such measures as the introduction of the 1999 Area Staff Rules, which have lowered the Agency's staff costs. It acknowledges the Commissioner-General's concern that the 1999 Area Staff Rules have eroded the Agency's competitive position as an employer,**

rendered more difficult the hiring and retention of qualified staff and created problems of staff morale within UNRWA. It commends the Commissioner-General and all UNRWA staff for their tireless efforts to maintain the basic operations of the Agency despite the constraints on the availability of resources that they have faced. It commends the Commissioner-General also for his fund-raising efforts and for his commitment to keeping the major donors and host authorities informed and involved, opening new avenues of support and funding and seeking a broader base of donors.

15. In order to address all aspects of the Agency's financial woes, the Working Group calls for the early and complete fulfilment of pledges and other commitments to UNRWA, in particular, the reimbursement of value-added tax and port charges by the Palestinian Authority and the Israeli Government and the payment of funds for the move of UNRWA headquarters to the area of operations. On the issue of value-added tax, the Working Group noted with appreciation that the Palestinian Authority had introduced a zero rating system for VAT in the Gaza Strip and was considering its extension to the West Bank.

16. With reference to the move of UNRWA headquarters from Vienna to Gaza and Amman, the Working Group took note of the Commissioner-General's efforts, following its 2002 report (A/57/462) towards settling that account in line with the view of the Agency's Advisory Commission, expressed in the letter of 25 September 2001 from the Chairman of the Commission to the Commissioner-General, that the "amount in question should be paid to the Agency by the United Nations as soon as possible". The Working Group reiterates the view expressed in its 2002 report, namely, that the $5.1 million outstanding with respect to expenses incurred by the Agency on the move of its headquarters to Gaza should be paid to the Agency by the United Nations as soon as possible.

17. The Working Group expresses alarm about the continuing negative effect successive austerity measures adopted in previous years have had on the Agency's operations. The Group noted with concern that the Agency's expenditure per refugee had dropped from an average $200 per year per refugee in the 1970s to less than $70 per year per refugee in the last decade. Past austerity measures and continuing funding shortfalls have affected the ability of programmes to expand at a rate commensurate with the growth in the refugee population and, in some cases, have necessitated curtailments of ongoing programme activities. Most seriously, those measures have led to double-shifting, increased class sizes in Agency schools, rising patient/staff ratios in the health services and higher caseloads for social workers dealing with the poorest refugees.

18. The Working Group is also concerned that the discontinuation of former regular budget allocations, such as university scholarships and rehabilitation of shelters, has not only reduced the Agency's activities in those areas, but has also made them dependent on extrabudgetary contributions. Similarly, cuts in allocations for maintenance of facilities have led to the deterioration of the Agency's extensive physical assets. The Group is gravely concerned about the impact of those measures on the lives of the Palestine refugees. It continues to believe that UNRWA plays a vital role in preserving the stability and security of

the region and that adequate funding of the Agency's programmes, in accordance with properly estimated needs of the refugee community, is essential to ensure it.

19. **In order to enable UNRWA to implement the emergency assistance to Palestine refugees in the West Bank and Gaza envisaged under the Agency's emergency appeals, the Working Group appeals to the international community to do its utmost to meet the target of $103 million for the appeal issued in June 2003 as soon as possible. It also called upon UNRWA to review future emergency programmes and priorities in accordance with refugee needs and anticipated funding levels.**

20. **The Working Group agrees that the problem of the refugees is deeply rooted in a political issue which originated more than half a century ago and that it remains essential to settle the problem once and for all in accordance with all relevant United Nations resolutions. The problems faced by the refugees today are, however, humanitarian ones that must be addressed as a shared international responsibility. The services provided by UNRWA must be viewed as the minimum required to enable the refugees to lead productive lives. Any further reduction in those services would not only unfairly deprive the refugees of the minimum level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Group expresses the hope that the international support for UNRWA embodied in the resolutions adopted each year by the General Assembly, in which the Assembly recognizes the importance of the work of the Agency and requests that Governments contribute to it, will be translated into measures to ensure the continuation of the Agency on a sound financial basis.**

21. **The Working Group therefore strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 2003 and once again:**

(a) **Urges Governments that have not yet contributed to UNRWA to start to do so;**

(b) **Urges Governments that have so far made only relatively small contributions to increase their contributions;**

(c) **Urges Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;**

(d) **Urges Governments that traditionally have shown special interest in the welfare of the Palestine refugees, both in the region and beyond, to begin contributing or to increase their contributions;**

(e) **Urges Governments to consider making special contributions sufficient to cover the deficit and build up working capital, so that UNRWA services can continue uninterrupted and the Agency can restore services cut as a result of the austerity measures, and to ensure that donor support of emergency-related and special programmes or capital projects does not in any way decrease or divert contributions to the Agency's regular programme.**

Notes

[1] For the consideration of the most recent report of the Working Group (A/57/462), see A/57/520.